SUMMARY

I. Description of Item

The County Commission established countywide accounting policies with the adoption of Resolution No. 21 on April 25, 1988 and said policies were amended by Resolution No. 19 on June 26, 1989, Resolution No. 17 on April 26, 1993 and Resolution No. 51 on April 12, 2004. In conjunction with implementing our new financial system, we are modifying our revenue and expenditure line items to be more consistent with current recommended practices. This resolution amends our accounting policies to provide for this modification of the line items for revenue and Expenditures/Expenses/Transfers. It also makes minor changes to be consistent with recent accounting pronouncements.

II. Sources and Amount of Funding

Not applicable

III. Contract Items

Not applicable

IV. Additional Information Relevant to Approval of this Item

Administration recommends approval of the resolution.

Item # ____________ Prepared by Mike Swift

Approved by Brian Kuhn
County Attorney

RESOLUTION ESTABLISHING AMENDED ACCOUNTING POLICIES AND CLASSIFICATIONS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. SPONSORED BY COMMISSIONER J. W. GIBSON.

WHEREAS, Article III Section 3.03 (F) of the Home Rule Charter requires the Mayor to maintain the accounting systems of Shelby County Government in accordance with generally accepted, accounting principles (GAAP) applicable to governmental entities; and

WHEREAS, The County Commission established countywide accounting policies with the adoption of Resolution No. 21 on April 25, 1988 and said policies were further amended by Resolution No. 19 on June 26, 1989, Resolution No. 17 on April 26, 1993 and Resolution No. 51 on April 12, 2004; and

WHEREAS, The Administration desires to update specific accounting policies based on current generally accepted accounting principles as standard for all Elected Officials, Boards and Agencies that are a part of Shelby County Government.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF SHELBY COUNTY, TENNESSEE, That the accounting policies in Exhibit A, which is attached and incorporated herein by reference are hereby approved and adopted to he effective for the fiscal year beginning July 1, 2009.

BE IT FURTHER RESOLVED, That each Elected Official; Board and Agency are hereby directed to adhere to these policies and accounting classifications when maintaining the finance records and preparing the comprehensive annual financial report of Shelby County Government for the fiscal year beginning July 1, 2009 and each fiscal year thereafter.

____
A C Wharton, Jr.
County Mayor

Date____________________

ATTEST:

____
Clerk of County Commission

ADOPTED ____________________

EXHIBIT A
SHELBY COUNTY GOVERNMENT
ACCOUNTING POLICIES

1. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Shelby County Government will maintain its financial records and financial reporting in accordance with generally accepted accounting principles applicable to governmental entities in the United States of America as required by Article III Section 3.03F of the Shelby County Charter. The accounting policies herein are intended to supplement these accounting principles and should any of these policies ever conflict with such accounting principles, the accounting principles shall take precedence over these accounting policies. The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles applicable to governmental entities. GASB Statement 20 provides governments the option to apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Shelby County has elected not to apply these FASB pronouncements.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments and equity in pooled investments are stated at their related fair market values. The County pools substantially all of its cash, cash equivalents, investments and accrued interest receivable. Each fund participating in the investment pool owns a pro rata share in the pool. Investment income of the pool is allocated to the various funds based upon average investment balances.

3. INVENTORIES

Expendable supplies held by governmental funds are recorded as expenditures at the time such items are purchased and are not reflected as inventories because the amount of these supplies is insignificant. Inventories of business type funds are stated at cost generally on a first-in first-out basis - or market, whichever is lower, and are charged to operations when consumed.

4. INTERFUND ACTIVITES

Reciprocal interfund activity (exchange or exchange-like transactions), except interfund loans, is accounted for as fund revenues and expenditures or expenses (as appropriate). Interfund loans are accounted for as assets and liabilities and this activity is not reported in the statement of revenues and expenditures/expenses. Transactions which constitute reimbursements of a fund for expenditures, or expenses initially made from the fund which are properly applicable to another fund are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All inter fund transactions except loan/advances, reciprocal transactions, and reimbursements are accounted for as transfers.

EXHIBIT A
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5. CAPITAL ASSETS

Capital assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and recorded at cost in the Countywide Statement of Net Assets. Contributed assets are recorded at fair market value at the time of receipt. Infrastructure assets, principally, roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems have been recorded retroactive to July 1, 1980.

Property and equipment of the proprietary funds (Enterprise and Internal Service Funds) are reported as assets of the funds rather than as expenses and are stated at cost or estimated cost. Depreciation expense on the capital assets is reported in the proprietary funds.

Depreciation for all applicable capital assets is charged as an expense to operations in the Countywide Statement of Activities. Accumulated depreciation is reported as a reduction of capital assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method of computing depreciation based on useful lives as follows:

Land improvements	10 - 30 years
Buildings	30 - 40 years
Equipment	3 - 20 years
Infrastructure	10 – 50 years

6. COMPENSATED ABSENCES

County employees are granted sick and annual leave in varying amounts in accordance with administrative policies and union memorandums of understanding. Accumulated vacation days are required to be used within eighteen months. In the event of termination or retirement, the employees are reimbursed for accumulated vacation days. Generally, employees not on the Executive Salary Schedule are compensated for accumulated sick leave, not to exceed 75 days, upon retirement. The amount of such payment is calculated on a maximum base salary of $20,000 per year. Certain exceptions to this policy occur in accordance with the terms of various union contracts.

Amounts paid for sick and annual leave are recorded in current salary expenditures or the Governmental Funds. In the Countywide Financial Statements and the business activities type funds, sick and annual leave obligations are recorded as expenses when such obligations accrue to the benefit of the employees.

7. CLAIMS AND JUDGMENTS

Claims and judgments, which can be reasonably estimated and could result in probable material losses to the county, should be given proper recognition under generally accepted accounting principles. For governmental type funds, the liability is recognized within the applicable fund if expected to be liquidated with expendable, available financial resources. All other material unpaid claims and judgments not to be liquidated with expendable, available financial resources are inventoried and recorded as a liability and expense in the Countywide Financial Statements. In business type funds, probable and measurable loss contingencies are recorded as incurred within the applicable fund.

8. ENCUMBRANCES

Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditures of funds expected to be liquidated with current resources are recorded in order to reserve that portion of the applicable appropriation - is utilized during the year to facilitate effective budgetary control. Unencumbered appropriations lapse at the end of each fiscal year, with encumbrances outstanding at the end of each year being reported as "Reserved for Encumbrances" in the fund equity section of the appropriated fund's balance sheet or the amount outstanding may be disclosed in the notes to the financial statements.

Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if unperformed purchase orders, contracts and other commitments in process at year-end are completed. For the General Fund and Enterprise Funds, purchase orders outstanding at year-end for supplies or services and any other purchase orders for less than $5,000 are considered to be expenditures of the year received and are not considered encumbrances under this policy. To be considered an encumbrance the acquisition or service should be in process as of year-end. Encumbrances outstanding at year-end do not constitute expenditures or liabilities but are treated as reservations of the appropriate fund's equity.

Therefore, the budget associated with each encumbrance outstanding at year-end will be reduced and a corresponding increase will be made to the next year's budget, without specific administrative or legislative approval required for either fiscal year. The year-end budgetary adjustment shall be to reduce each expenditure account budget, by the amount of the encumbrance, with an offset as a reduction in the planned change in fund balance. To the extent that encumbrances are funded by outside sources (such as grants or other reimbursements that are not recognized as revenue until an expenditure is incurred) the offset adjustment shall be to that outside source revenue instead of planned use of fund balances.

The next year's budgetary adjustment shall be to increase each expenditure account budget and each funding source (outside source tied to encumbrance or planned change in fund balance) in the same amount as the prior year reduction. The affect of this process is to carry forward encumbrances and related budgets and to recognize the expenditure in the subsequent fiscal year when the liability is incurred. Should any encumbrance be cancelled, the budget shall be reduced by the remaining amount of such encumbrance.

9. COMPONENTS OF NET ASSETS AND FUND BALANCE

Restrictions, reserves, designation and other components of net assets and fund balance are determined in accordance with generally accepted governmental accounting principles. Generally, restrictions and reserves are legal limitations regarding the use of the balances.

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Reserves may include encumbrances to fund future commitments for outstanding purchase orders and outstanding contracts as defined above in the General Fund and Special Revenue Funds other than the Grants Fund. In the various funds, reserves are legal commitments beyond the specific purpose of the fund.

10. BUDGETS

In accordance with Article III, Sections 3.03B, 3,03C, 3.03F and 3.07 of the Shelby County Charter, the Mayor shall annually submit to the County Commission a budget for all offices and operations of County Government including a Capital Improvement Program and a Debt Service budget, provided, however, that no budget shall be required or submitted for any fund which serves as an insurance type of fund. This policy does not require the approval of or specific adherence to any budget of any organization, which may be deemed to be independent or quasi-independent but still defined by generally accepted accounting principles as a part of Shelby County Government for financial reporting purposes.

In accordance with generally accepted accounting principles and the Shelby County Charter, a presentation indicating budgetary compliance as part of the general purpose financial statements is required for all governmental funds for which annual budgets are adopted. The Shelby County Charter provides that expenditures may not exceed appropriations by line item at the department level. For purposes of budgetary compliance, the following line items shall be deemed to exist in all departments and defined as follows:

REVENUES	EXPENDITURES/EXPENSES/TRANFERS
Property Taxes	Salaries-Regular Pay
Other Local Taxes	Salaries-Other Compensation
Intergovernmental - State	Fringe Benefits
Intergovernmental - Federal & Local	Salary Restriction
Charges for Services	Supplies & Materials
Fines, Fees and Permits	Services & Other Expenses
Investment Income	Professional and Contracted Services
Internal Service Fund Charges	Rent, Utilities & Maintenance
Other Revenue	Interfund Services
	Capital Asset Acquisitions
	Depreciation
	Debt Service & Related Costs
	Affiliated Organizations
	Grants
	Contingencies & Restrictions
	Operating Transfers In
	Operating Transfers Out
	Other Financing Sources & Uses
	Planned Change in Fund Balance

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Additional detail accounting information will be maintained in detailed accounts for each line item. The Finance Department is responsible for the correct coding of transactions to the appropriate line item.

Annual budgets, which are submitted to and approved by the County Commission, shall be in the following categories:

I. Operating Budget
   A. General Fund
   B. Special Revenue Funds
   C. Enterprise Funds
   D. Internal Service Funds

II. Debt Service Budget
   A. Debt Service Funds

III. Capital Improvement Program Budget
   A. Capital Projects Fund

11. <u>REVENUES & EXPENDITURES</u>

The accrual basis of accounting is used in the Countywide Financial Statements, business type funds and fiduciary funds. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded as incurred.

The modified accrual basis of accounting is followed by governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. To be considered available, collection must occur within 60 days after year end, unless a different time period can be clearly documented as more appropriate to be available to pay liabilities incurred as of year end. Expenditures generally are recorded when the liability is incurred, but general long-term debt service (maturing principal, interest, and fiscal charges) are recorded when due.

In applying the "susceptible to accrual" concept to inter-governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one case, monies must be expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon expenditures. In the other case, monies are virtually unrestricted as to the purpose of the expenditure and are revocable only for failure to comply with prescribed compliance requirements, such as equal opportunity employment. These resources are reflected as revenues at the time of receipt or earlier if they are "susceptible to accrual."

Property taxes are normally recorded as revenues in the fiscal year of the levy if collected within two months, (by August 31) following the end of the fiscal year, in accordance with generally accepted accounting principles. Estimated delinquent taxes to be collected subsequent to August

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31 are included in the balance sheet as property taxes receivable and deferred revenues to reflect amounts that were not available as revenues at year-end.

Gross receipts and sales taxes are considered "measurable" when in the hands of the intermediary collecting agent and are recognized as revenue at that time. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until they are received. Investment earnings are recorded when earned since they are measurable and available.